

MINUTES

CITY OF DELANO PENSION COMMITTEE – REGULAR MEETING February 1, 2016

CALL TO ORDER

Chairman Lennon called the meeting to order at 2:04 p.m. in the City Hall Council Chambers, 1015 – 11th Avenue.

ROLL CALL

Committee Members present: Don Campbell, Gregory Funk, Gerald Gruver, and Carlton Lennon.
Committee Member absent: Abel Moreno. (Mr. Moreno showed up at 2:41 pm)

OFFICIALS PRESENT

City Manager Reyna, Finance Director Lara Rios, Assistant Finance Director Bermudez, City Clerk Kraft, Recording Secretary Villarreal.

Others Present: Bob Abraham from Stifel Nicolaus, Jeremy Shumaker and David Ivarie from Morgan Stanley, Barthus J. Prien and Tiao-Tiao Hsu from Prien Associates.

CONSENT AGENDA

- 1) Minutes of Regular Pension Committee meeting of November 2, 2015; minutes of special Pension Committee meeting of December 8, 2015; and minutes of special Pension Committee meeting of January 12, 2016.

Moved by Committee member Carlton Lennon, seconded by Committee member Gregory Funk and *unanimously carried* by all those present to accept the Minutes of the regular Pension Committee meeting of November 2, 2015; the minutes of the special Pension Committee meeting of December 8, 2015; and the minutes of the special Pension Committee meeting of January 12, 2016.

REGULAR AGENDA

- 2) Presentation of portfolio performance by Mr. Bob Abraham of Stifel Nicolaus; discussion and any action regarding this portfolio.

Mr. Bob Abraham started his presentation at 2:06 pm, referring to the consolidated performance, which shows a -1.4 for the year 2015; then he explained each individual account, comparing with the bench mark. He mentioned that Large Cap Growth is 35.8%, Large Cap Value is 16.7%, Mid Cap is 20.6%, Small Cap is 11.1%, and International is 15.8%.

Chairman Carlton Lennon asked Mr. Abraham, why is he maintain International investment at 15.8%; why not lower it or increase it.

Mr. Abraham said that later on he will present his recommendation and one of them is changing the exposure to the emerging markets to get better returns and less risk.

Mr. Abraham recommended actions were:

1. Move \$500,000 from Wedgewood to Legg Mason in the Large Growth category. This will increase Legg Mason's percentage of the portfolio from 1.5% to 4.4%, while lowering Wedgewood from 13.0% to 10.1%.

Wedgewood's concentrated portfolio has underperformed the past two years while Leg Mason has significantly outperformed Wedgewood the past three years.

2. Replace Allianz Global Investors with two new managers – Capital Group International Equity and Navallier International Growth. Allianz performed poorly in 2015 after a poor performance in 2014. Their large exposure to Emerging Markets, 23.8%, impacted their performance. Capital Group & Navallier limited their exposure to 3% and 5% respectively. When Emerging Markets begin to do well, these managers will be in position to increase their exposure. Split the funds from Allianz equally between the two new managers.

Mr. Abraham's presentation ended at 2:59 pm.

- 3) Presentation of portfolio performance by Mr. Jeremy Shumaker of MorganStanley SmithBarney; discussion and any action regarding this portfolio.

Mr. Shumaker started his presentation at 3:00 pm. He explained the performance and the asset allocation. There was a question regarding the investing in derivatives, REEDS, etc. and Mr. Shumaker said that they don't have the Investment Policy, which has been approved by the Committee on the December 8, 2015 meeting.

Mr. Shumaker said that MorganStanley can get better return with less risk. In order to get it, they need to:

- Increase short investment.
- Lower international exposure, and
- Lower equity.

There were some questions and after a brief discussion, Mr. Shumaker told the Committee he will be sending his recommendation in writing, He ended his presentation at 3:30 pm.

- 4) Discussion, review and any action regarding investment allocation.

Chairman Carlton Lennon open to discussion to the board, Mr. Abraham recommendations.

Committee member Gregory Funk said that his main focus is the long term, not only for 1 or 2 years. He mentioned international investment, if we can see something regarding currency conversion

Mr. Lennon said that his main concern is: the way Bob hired and fired managers. Mr. Abraham said that he look for the best manager available, checking their performance comparing with their bench mark; also he looks into their capture performance.

Committee member Abel Moreno stated that the investment advisors need to do their job, which is get the best investment return, in order to match or exceed the long term interest assumption; and if they don't do it, the Committee needs to find another ones. Mr. Moreno feels that the investment advisors don't need to come, to the board, with recommendations, to get approve by the Committee.

After a brief discussion, Mr. Abraham, by Committee suggestion, modified his recommendation #2, which now reads: Replace Allianz Global Investors with Capital Group International Equity.

Moved by Chairman Carlton Lennon, seconded by Committee member Gregory Funk and *unanimously carried* by all those present to approve the modified recommendation #2.

A motion was made by Committee member Gerald Gruver, and seconded by Committee member Gregory Funk to approve the recommendation #1, to move \$500,000 from Wedgewood to Leg Mason in the Large Cap Growth category. *Motion passed* by the following vote:

AYES: Committee members Don Campbell, Gregory Funk, Gerald Gruver, and Abel Moreno.

NOES: Committee member Carlton Lennon.

- 5) Resolution to amend the City of Delano Pension Committee meetings dates and times.

Chairman Carlton Lennon referred to staff and Mrs. Rosa Lara Rios said that some of the Committee members mentioned to staff they would like to change the days or the time that the meetings are scheduled.

After a brief discussion, the Committee members agreed to change the regular meeting schedule as follows: The Delano Pension Committee shall meet on the second Monday of February, May, August, and November of each year at 8:00 a.m.

Moved by Chairman Carlton Lennon and seconded by Committee member Abel Moreno and *unanimously carried* by all those present to approve the new regular meeting schedule.

- 6) Information provided on the updated GASB 67/68 report prepared by Bartel & Associates.

Mrs. Rosa Lara Rios updated the GASB 67/68 report. Mrs. Lara Rios stated that the unfunded liability is higher according what GASB 67/68 required.

Motion was made by chairman Carlton Lennon, seconded by Committee member Abel Moreno and *unanimously carried* by all those present, to directed staff to develop different options in order to reduce the unfunded liability, and include in the agenda for the next meeting.

- 7) Review of financial transactions for the period July 1, 2015 through December 31, 2015.

Mr. Prien started his presentation explaining table 4, which shows a net return of -2.43%.

Chairman Carlton Lennon stated that the money managers need to be accountable for what they are doing. They need to, at least, match the index return.

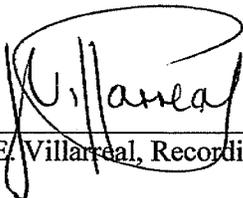
Mr. Moreno stated that the managers know what the Pension plan target is, which are the investment allocation and also the interest assumption, so they need to work in order to provide it, and if they can't we, the Committee, can look for someone else that will be able to do it.

Committee direct to staff to invite money managers to discuss options to invest, for the next meeting.

After a brief discussion regarding the contributions have been transferred to a disbursement account, which is not under the Pension Plan or City's name, the Committee directed to staff to look for other bank options in order to get better interest return, and add for the next meeting to discuss regarding the transfer to disbursement account.

ADJOURNMENT

Moved by Committee member Lennon, seconded by Committee member Funk, to adjourn the meeting at 4:19 p.m. *Motion passed unanimously.*



Javier E. Villareal, Recording Secretary